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FISCAL IMPACT STATEMENT

LS 6992

BILL NUMBER: SB 443

NOTE PREPARED: Jan 9, 2007

BILL AMENDED:

SUBJECT: Property tax circuit breaker.

FIRST AUTHOR: Sen. Delph

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL
DEDICATED
FEDERAL**

IMPACT: Local

Summary of Legislation: This bill eliminates the 2% assessed value property tax circuit breaker credit after 2007. Instead, it provides a property tax credit equal to the amount by which a property taxpayer's property tax liability exceeds 102% of the property tax liability imposed in the preceding year.

The bill corrects an incorrect reference to a date. It indicates that any reduction in collections due to the property tax credit does not relieve a political subdivision from the requirement of fully funding the payment of debt service or lease rentals and it makes other related changes.

Effective Date: January 1, 2007 (retroactive); July 1, 2007.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: NOTE: *The following analysis of the proposed property tax credit and of the current 2% property tax credit are subject to change as local assessors finalize trending/equalization adjustments and as actual normal assessed value (AV) and levy growth rates become known. The actual credits will differ from these estimates.*

Compared with the credits under current law, the credits under this proposal would cost about \$38 M less in 2008, \$23 M more in CY 2009, and \$154 M less in CY 2010. The 2007 credit, with an estimated cost of

\$19 M would not be affected by this bill. The effect on each taxing unit differs greatly under the current and proposed credits.

Under current law counties must provide credits against the property tax liability of certain classes of property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. Counties are not permitted to borrow money to fund the credit. The credits reduce revenues for local civil taxing units and school corporations in affected counties. The credit applies as follows:

1. The credit is mandatory in Lake County in 2007. It applies to all residential property in 2007 unless the Lake County Council adopted an ordinance by December 31, 2006, limiting the credit to only homesteads.
2. The credit is mandatory in all counties for taxes payable in 2008 and in 2009. The credit applies to all forms of residential property – homesteads, apartment complexes, and other residential rental property – in all counties.
3. Beginning with taxes payable in 2010, the credit applies to all real and personal property in all counties.

Beginning in CY 2008, this bill would replace the current credit with a new credit that would apply to all real and personal property. Under the proposal, each taxpayer's tax bill increase on property which was owned in the previous tax year and remains unchanged would be limited to 2% per year.

The cost of the credit for personal property cannot be estimated and, in fact, may be minimal overall. This credit applies specifically to property that was assessed in both the current and previous years. As personal property ages, its assessed value is reduced through the property tax return's depreciation schedule. If the total assessed value of all of a taxpayer's personal property falls to 30% of the adjusted cost, the assessment stops declining. (This is known as the 30% floor). The 30% floor will not be reached by a taxpayer whose new investment keeps pace with the depreciation of existing equipment. However, if a taxpayer's personal property is assessed at the 30% floor and net tax rate growth exceeds 2%, then that personal property would qualify for the new credit. Credits on personal property may be due in locations with large amounts of property assessed at the 30% floor.

The cost of the new credit for real property under this proposal is estimated at \$84 M in CY 2008, \$145 M in CY 2009, and \$272 M in CY 2010. The credit for real property would likely apply in each county and to each taxing unit.

By comparison, the cost of the current 2% credit is estimated at \$122 M in CY 2008 and CY 2009, and \$426 M in CY 2010. The current credit will affect an estimated 1,155 taxing units in 74 counties when fully implemented in 2010. There are a total of about 2,400 taxing units in the 92 counties.

The bill would also require taxing units to fully fund the payment of debt service and lease rentals regardless of and revenue reduction due to the credits.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: All local civil taxing units and school corporations.

Information Sources: LSA parcel-level property tax database; Local Government Database.

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